

**Calculating the Same-Cost Markup
Using the 1991 GAO Survey**

Date	Most Popular Service					
	Monthly Nominal Rate	Monthly 1994 \$ Rate	Monthly Rate Net of Programming Costs	Total Programming Costs	Average Number of Channels	Average Number of Satellite Channels
11/30/86	11.71	15.63	13.80	1.83	27.1	12.1
12/31/88	14.91	18.19	15.32	2.88	32.2	16.0
12/31/89	16.33	19.04	15.81	3.23	33.6	17.6
4/1/91	18.84	20.57	16.37	4.20	35.3	20.3

**Key Variables for Calculation of
Monthly Rate Increase Per Subscriber
Per Additional Channel**

Date	Change in Rates	Change in Channels	Change in Satellite Channels	Change in Programming Costs
11/86 - 12/88	2.56	5.1	3.9	1.05
12/88 - 12/89	0.85	1.4	1.6	0.36
12/89 - 4/91	1.53	1.7	2.7	0.96
Entire Period	4.94	8.2	8.2	2.37

Source: General Accounting Office, 1991 Survey of Cable Television Rates and Services (July 1991), pp. 13,15. For estimates of per-subscriber costs, per-satellite service fees, percentage of total channels occupied by satellite services, and consumer price index, see other tables in this appendix.

**Calculating the Lower-Cost Markup
Using the 1989 GAO Survey**

Cable System Subscriber Size	Average Monthly Nominal Rate			Average Monthly Rate 1994 \$			Monthly Rate Net of Programming Costs			Average Number of Channels			Average Number of Satellite Channels		
	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88
1 - 1,000	11.30	12.65	13.91	15.09	16.12	17.09	14.02	14.67	15.33	15.8	18.2	19.7	7.0	8.6	9.8
1,001 - 3,500	11.20	12.88	14.16	14.95	16.41	17.39	13.68	14.68	15.29	18.9	21.8	23.6	8.4	10.3	11.7
3,501 - 10,000	10.96	12.76	14.10	14.63	16.26	17.32	13.11	14.19	14.77	22.5	26.0	28.6	10.0	12.2	14.2
10,001 - 50,000	11.58	13.45	14.87	15.46	17.14	18.27	13.65	14.68	15.29	26.8	30.9	33.3	11.9	14.5	16.5
> 50,000	12.31	13.98	15.17	16.44	17.81	18.63	14.35	15.12	15.47	30.9	33.9	35.4	13.7	16.0	17.6
All Systems	11.70	13.46	14.77	15.62	17.15	18.14	13.82	14.77	15.28	26.6	30.0	32.1	11.8	14.1	15.9

**Monthly Rate Increase Per Subscriber
Per Additional Channel
[Net of Programming Costs]**

Cable System Subscriber Size	12/86 - 12/87		12/87 - 10/88		12/86 - 10/88	
	Ch	Sat. Ch.	Ch	Sat. Ch.	Ch	Sat. Ch.
1 - 1,000	0.272	0.424	0.437	0.538	0.335	0.474
1,001 - 3,500	0.346	0.541	0.337	0.416	0.342	0.486
3,501 - 10,000	0.309	0.484	0.220	0.291	0.271	0.394
10,001 - 50,000	0.252	0.394	0.253	0.305	0.252	0.355
> 50,000	0.257	0.349	0.234	0.217	0.250	0.293
All Systems	0.277	0.412	0.242	0.279	0.264	0.353

Source: General Accounting Office, National Survey of Cable Television Rates and Service (August 1989), pp. 24-25. For estimates of per-subscriber programming costs, the percentage of total channels occupied by satellite services, and the consumer price index see other tables in this appendix.

**Calculating the Same-Cost Markup
Using the 1989 GAO Survey**

Cable System Subscriber Size	Average Monthly Nominal Rate			Average Monthly Rate 1994 \$			Monthly Total Programming Costs			Average Number of Channels			Average Number of Satellite Channels		
	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88	12/1/86	12/31/87	10/31/88
1 - 1,000	11.30	12.65	13.91	15.09	16.12	17.09	1.07	1.44	1.76	15.8	18.2	19.7	7.0	8.6	9.8
1,001 - 3,500	11.20	12.88	14.16	14.95	16.41	17.39	1.28	1.73	2.11	18.9	21.8	23.6	8.4	10.3	11.7
3,501 - 10,000	10.96	12.76	14.10	14.63	16.26	17.32	1.52	2.06	2.55	22.5	26.0	28.6	10.0	12.2	14.2
10,001 - 50,000	11.58	13.45	14.87	15.46	17.14	18.27	1.81	2.45	2.97	26.8	30.9	33.3	11.9	14.5	16.5
> 50,000	12.31	13.98	15.17	16.44	17.81	18.63	2.09	2.69	3.16	30.9	33.9	35.4	13.7	16.0	17.6
All Systems	11.70	13.46	14.77	15.62	17.15	18.14	1.80	2.38	2.87	26.6	30.0	32.1	11.8	14.1	15.9

**Key Variables for Calculation of
Monthly Rate Increase Per Subscriber
Per Additional Channel**

System Subscriber Size	12/86 - 12/87				12/87 - 10/88				12/86 - 10/88			
	Change in				Change in				Change in			
	Rate	Ch.	Satellite Ch.	Prg. Costs	Rate	Ch.	Satellite Ch.	Prg. Costs	Rate	Ch.	Satellite Ch.	Prg. Costs
1 - 1,000	1.03	2.4	1.5	0.38	0.97	1.5	1.2	0.32	2.00	3.9	2.8	0.69
1,001 - 3,500	1.46	2.9	1.9	0.45	0.98	1.8	1.5	0.38	2.44	4.7	3.3	0.83
3,501 - 10,000	1.62	3.5	2.2	0.54	1.06	2.6	2.0	0.49	2.69	6.1	4.2	1.03
10,001 - 50,000	1.67	4.1	2.6	0.64	1.13	2.4	2.0	0.52	2.80	6.5	4.6	1.16
> 50,000	1.37	3.0	2.2	0.60	0.82	1.5	1.6	0.47	2.20	4.5	3.8	1.07
All Systems	1.53	3.4	2.3	0.58	0.99	2.1	1.8	0.49	2.52	5.5	4.1	1.07

Source: General Accounting Office, National Survey of Cable Television Rates and Service (August 1989), pp. 24-25. For estimates of per-subscriber programming costs, the percentage of total channels occupied by satellite services, and the consumer price index see other tables in this appendix.

Subscriber Weighted Average Network License Fees

Year	Nominal Average	All Goods CPI	Apr-94 Dollars
1986	0.112	1.087	0.152
1987	0.129	1.128	0.169
1988	0.143	1.172	0.180
1989	0.154	1.232	0.184
1991	0.190	1.353	0.207
1992	0.206	1.395	0.218
1994	0.231	1.474	0.231

Source: Paul Kagan, Cable TV Programming, various issues.

The data provided were as of April of that year. U.S. Department of Labor, Bureau of Labor Statistics.

Non-Broadcast Channels as a Percentage of Total Channels

<u>Year</u>	<u>%</u>
1986	44.48%
1987	47.07%
1988	49.66%
1989	52.25%
1991	57.43%
1992	60.02%

Source: Calculated from FCC data base
used in FCC rate reregulation regressions
and uses only franchises for which both
1986 and 1992 data are available.

**Consumer Price Index
All Goods**

<u>Date</u>	<u>CPI</u>
Nov-86	1.104
Dec-87	1.157
Oct-88	1.200
Dec-88	1.208
Dec-89	1.264
Mar-91	1.350
Apr-94	1.474

Source: U.S. Department of Labor,
Bureau of Labor Statistics.

**RESULTS OF A SURVEY OF COMMERCIAL RATES CHARGED BY
OVERBUILT CABLE SYSTEMS**

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At counsel for TCI's request, we conducted a survey of the commercial rates charged by those overbuilt systems that were categorized by the Commission as "effectively competitive," as defined by the 1992 Cable Act. The objective of the survey was to determine whether residential and commercial differed in markets where rates were subject to competition.

For those systems that we were able to contact,¹ a majority indicated that they *do* charge different residential and commercial rates. By way of a summary, the charge *per room* in a hotel/motel/hospital is typically less than the residential rate, and a number of operators indicated that the actual commercial charge depends upon occupancy rates and the number of rooms cabled, as well as the cost of installing the cable. However, the *total* charge to any one of these establishments will be far larger than that for single residence. Some responding systems also indicated that they do charge more to bars and similar public establishments for basic cable service than they to residences while others do not, unless required to do so by a contract with a program service. A more detailed description of the system responses follows:²

System 1 negotiates commercial rates on a case-by-case basis but declined to indicate the typical differential between residential and commercial rates.

System 2 charges negotiated rates to hospitals and motels that would otherwise pay a total of \$50 per month. The actual terms vary with the number of rooms, complexity of the installation, and maintenance requirements.

¹ We initially planned to survey all overbuilt from the Commission's survey. However, FCC staff declined to provide us the telephone number and the contact person of each overbuilt system so that we were forced to rely on the much less complete information provided in the Factbook. As a result, we were unable to contact many of the overbuilt systems. The information reported here is for all overbuilt systems that we were able to reach.

² To maintain confidentiality, we are not identifying the responding systems.

System 3 charges any facility "that's not residential"-- by which is apparently meant office buildings -- the commercial rate (\$49.95 per month vs. \$23.75 per month for basic cable service). Hotels and motels have negotiated rates that depend on the number of rooms and services provided.

System 4 charges hotels, motels, and hospitals rates that depends on the number of rooms and the occupancy rate. Thus, the per-room rate can vary substantially both across commercial establishments and between them and residential establishments.

System 5 charges commercial establishments individually negotiated rates that depend on the type of facility, the number of units, and occupancy rates.

System 6 has different residential and commercial rates, with the commercial rates varying widely depending on the type of establishment. Rates charged to bars differ from those charged to motels. The system also noted that there is a particularly large variety of rates charged to "bulk-billed" customers, like motels and hospitals.

System 7 has wide differences between residential and commercial rates. The residential rates are \$9 per month for "broadcast basic" and an additional \$14 per month for expanded basic. The rate for commercial establishments like bars -- where service is considered to be publicly viewed -- is \$49.95 for the package that includes expanded basic. For motel/hotel establishments, broadcast basic is delivered at \$1.72 per room and expanded basic at an additional \$2.68 per room. For hospitals and dormitories, broadcast basic is available at \$1.57 per room while expanded basic is available at an additional \$2.43 per room.

System 8 charges hotels or motels about \$6 per room per month for basic service, in contrast to the \$19 residential charge. Nursing homes pay \$12 per room per month.

System 9 charges RV parks and motels about 50 percent less per site/room than the \$13 residential fee.

System 10 charges motels and hospital about \$5 to \$6 per room depending on the size of the establishment. The current residential rate is about \$21.30.

System 11 charges hotels \$2.50 per room (based on 100 percent occupancy³) for basic and \$5 per room for basic plus expanded basic, in contrast to its residential rate of \$11.49 for basic (and an additional \$12.56 expanded basic). It also provides an

³ The statement "based on 100 percent occupancy" may mean only that all rooms in the hotel are wired, not that all rooms are continuously occupied.

audio service to residences for \$9.95 per month and commercial establishments for \$28.95 per month.

System 12 charges hospitals and motels the same base rate, plus a volume discounted per-room additional outlet charge, based on 100 percent occupancy and the number of rooms.

System 13 charges residential subscribers \$10.26 for basic and additional \$10.26 for expanded basic. Hotels, motels, and hospitals pay a bulk rate of \$5.10 per room if the number of "outlets" is fewer than ten.